2012 Annual Report

Innovating for a Sustainable Electricity System

ONTARIO POWER AUTHORITY

ONTARIO
POWER AUTHORITY

120 Adelaide Street West
Suite 1600
Toronto, Ontario M5H 1T1

T 416-967-7474
F 416-967-1947
www.powerauthority.on.ca

April 2, 2013

The Honourable Bob Chiarelli
Minister of Energy
900 Bay Street, 4th Floor
Toronto, ON
M7A 2E1

Dear Minister:

I am pleased to submit the Ontario Power Authority's 2012 annual report. The report provides an overview of the OPA's activities and accomplishments during the fiscal year that ended December 31, 2012, and includes the audited financial statements.

Respectfully submitted,

James D. Hinds
Chair
Encl.

2012 Annual Report

Innovating for a Sustainable Electricity System

The Ontario Power Authority fulfills a unique and vital role in Ontario's electricity sector – coordinating province-wide conservation efforts, planning the electricity system for the long term and contracting for clean electricity resources. We work closely with our industry partners and a broad range of stakeholders across the province to carry out these activities.

Together, we are innovating to ensure a sustainable future for Ontario's electricity system through our work to reduce energy use, maintain reliability and establish a clean, modern and cost-effective power grid.

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ONTARIO POWER AUTHORITY

Message from the Chair and CEO

Ontario has a good story to tell about its electricity system – for many reasons. Our diversified supply mix is one of our strengths. And we continue to make it greener, cleaner and smarter.

Innovation is at the core of this transformation. It drives success, efficiency and cost savings – and it enables us to find smarter and more effective ways of accomplishing our objectives.

Colin Andersen, Chief Executive Officer

James D. Hinds, Chair

Ontario's conservation targets are among the most ambitious in North America – the province's long-term target is a reduction of 7,100 megawatts in peak demand and 28 terawatt-hours in electricity consumption by 2030. That's equivalent to taking one in five households off the grid. Ontario has also set aggressive targets for clean energy that are primarily being met through the first comprehensive feed-in tariff program on the continent – 10,700 megawatts of wind, solar and bio-energy resources and 9,000 megawatts of hydroelectric resources by 2018.

With our sector partners we are helping to build a smarter electricity grid that is creating opportunities for new businesses and innovative products and services. Ontario has nearly completed a full rollout of smart meters with over 4.7 million smart meters installed in homes and businesses across the province and over 4.4 million customers on time-of-use rates. And the province is eliminating coal-fired generation by the end of 2014, which is the biggest climate change initiative in North America. Ontario is the first jurisdiction on the continent to do so. It will reduce the carbon footprint of Ontario's electricity sector by 75 percent.

What's particularly innovative is not just that we are doing these things, but that we are doing all of them at the same time – with success.

The OPA is pursuing innovations in programs, processes and operations to achieve our objectives and deliver on all areas of our mandate more efficiently and cost effectively.

Innovation in conservation: The latest verified conservation program results demonstrated that we exceeded our 2011 targets overall – at a program cost to consumers of just three cents per kilowatt-hour, our most cost-effective year ever. This shows that the programs we've been implementing collaboratively with local distribution companies are taking hold and that momentum continues to build.

To maintain this momentum into the future, the Conservation Fund supports innovative electricity conservation initiatives and technologies that can help achieve significant energy savings in Ontario. Funded projects have informed the design and evolution of Ontario's

saveONenergy conservation programs. They've also supported efforts to develop and commercialize a wide range of cutting-edge technologies to further energy efficiency and conservation. These programs are helping residents, businesses and institutions to manage their energy use and help build Ontario's culture of conservation.

To help provide informed advice to government, we are also developing a vision for 2020 to guide our conservation efforts over the rest of this decade. Key elements of the vision include: taking a more customer-centric approach, ensuring that customers have relevant and timely information about their consumption and benchmarks for comparison, leveraging the creativity of the marketplace through performance-based conservation products, and engaging the supply chain and influencers to promote conservation through their channels.

Innovation in planning: We are innovating the way we plan the power system. Planning is a continuous process that has to respond to ever-changing circumstances. We've identified future growth areas in the province and have been working proactively at the provincial, regional and municipal levels in these areas to more closely integrate electricity and land use planning. The goal is to ensure that future electricity infrastructure needs are better accounted for in official plans.

Innovation in procuring and managing supply: As the first comprehensive feed-in tariff (FIT) program in North America, the FIT Program clearly demonstrates Ontario's innovation in procuring renewable energy. This program has successfully met multiple objectives: economic development and job creation, participation by Aboriginal communities, fostering renewable development, and environmental goals – including helping to replace coal-fired generation with clean energy.

Integration of renewable resources into the electricity system will continue to be an important consideration over the next few years, requiring more innovation and collaboration in the sector. With the FIT Program, we are incorporating a larger amount of intermittent resources into an existing system.

The sector has been working collaboratively on a number of initiatives to efficiently integrate these resources. New tools are being developed and implemented to address variability and operability, as well as visibility and predictability.

And we are looking at the potential role for electric vehicles, energy storage in its many forms, and two-way flows of electricity. We believe Ontario is at the forefront of these developments and we continue to monitor advancements in these areas across the globe.

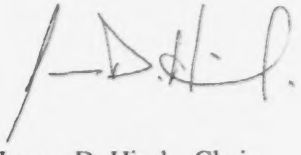
Delivering ratepayer value: We are mindful of the economic and fiscal environment within which we operate and are committed to helping Ontario become a world-leading clean energy jurisdiction that will support the economy of tomorrow. In 2012, the OPA and other electricity agencies and crown corporations worked together to identify efficiencies and cost reductions aimed at reducing electricity costs for ratepayers.

We also worked with our sister agency, the Independent Electricity System Operator, to plan a merger of our two organizations that would achieve benefits for Ontario's ratepayers. Although the merger was paused in October due to prorogation of the legislature before the bill to enable the merger was passed, the proposed merger identified potential reductions and efficiencies. We will continue to take steps to achieve these savings for ratepayers.

In 2012, we reduced our operating expenses by 4.7 percent from 2011 and we are on track to reduce our full-time equivalent staff numbers by five percent below our 2012 budget by 2013. These reductions are being undertaken during a period that is expected to see us delivering on an increasingly broad and complex mandate involving a rising number of contracts under management. Currently, we are managing close to 22,500 megawatts under contract, about two-thirds of the province's total capacity.

The electricity customer of tomorrow will be different from the customer of today. Consumers are monitoring and managing their electricity use remotely, generating clean electricity and selling it to the grid. They are becoming more aware of, and responsive to, the cost of electricity. And they are more actively managing their consumption and production as a result.

The OPA is leading and participating in a wide range of innovations as part of our mandate, as are many others in the electricity sector and in the broader community. We're making great progress, but we can accomplish even more. We'll continue to share ideas, collaborate on projects, work with Aboriginal communities and stakeholders, and encourage and support innovation in our sector and in other sectors. Together, we will find ways to work better, smarter and more efficiently to ensure a reliable, sustainable, cost-effective electricity system. And do our part for a stronger economy and a cleaner, healthier environment.



James D. Hinds, Chair

Colin Andersen, Chief Executive Officer

At the leading edge of conservation

The OPA is committed to ensuring the electricity needs of Ontario are met both now and in the future, through working with partners to design and deliver new energy-saving initiatives for homes and businesses, funding innovative projects through the Conservation Fund, and engaging the public in energy conservation. These initiatives are building a culture of conservation across the province and benefit all Ontarians – reducing the need to build more expensive forms of generation, helping customers better understand their energy consumption, and enabling the province to meet its long-term energy targets.

Conservation programs for Ontario

In 2012, the OPA continued to work with and provide infrastructure support for Ontario's local distribution companies in their delivery of the enhanced set of conservation and demand management programs launched under the **saveONenergy** banner in 2011. These programs, designed for residential and business customers, including industrial customers, from 2011 to 2014, provide customers with incentives, tools and information to help them reduce energy costs and better manage their energy consumption. In December 2012, the Minister of Energy issued a directive to extend the OPA's funding authority for province-wide conservation and demand management programs delivered by local distribution companies to December 31, 2015.

Residential, business, industrial and demand response programs offered by both the OPA directly and through local distribution companies achieved a total of 645 megawatts of demand reduction and 717 gigawatt-hours of energy savings in 2011. Based on these results, the OPA and local distribution companies continued to work together to identify further conservation opportunities that will help the province achieve its overall conservation targets.

With advice from Aboriginal communities, the Aboriginal Conservation Program was launched in early 2013 and is designed to enable First Nations, Métis and the urban Aboriginal community to reduce their electricity consumption. Eight First Nation communities in Ontario will be selected to participate in the first year of the program and 16 in the second year, including remote communities. The program provides customized delivery of conservation programs to meet the needs of First Nations and engage communities, businesses and households in energy conservation measures.

Supporting conservation through training, technology and awareness-building

The OPA continued to provide support for conservation through training suppliers in the conservation industry, funding the development of new technologies through the Conservation Fund, and building awareness in the province through campaigns and other initiatives.

In 2012, the Conservation Fund committed $8.7 million to eight new projects, including a $5 million pilot with a number of local distribution companies to test the effectiveness of social benchmarking to foster conservation in the residential market. Results and findings from a number of Conservation Fund projects directly influence many of the **saveONenergy** initiatives.

The 2012 **saveONenergy PLEDGE** campaign ran from June to December. The campaign encouraged customers of local distribution companies to enroll in the ***peaksaver* PLUS**™ program and gave Ontarians tangible ways to manage costs on their electricity bill.

Building a culture of conservation for the future

We continued to lead the province in building a culture of conservation for the future, assisting the government in its work on building codes and new product standards, as well as integrated energy systems with local governments. The current local distribution company directives and targets expire at the end of 2014. We have also started developing future options for consideration by the Ministry of Energy. This involves identifying trends that will influence the shape and nature of future energy-efficiency efforts and targets.

Planning for a sustainable future

The OPA updates integrated power system plans to provide context for policy decisions, support program and procurement development, and the implementation of transmission projects. Increasingly, our planning has focused on more regionalized approaches that develop localized solutions encompassing transmission, distribution, conservation and generation. This involves working with transmitters, distributors, the Independent Electricity System Operator, the Ontario Energy Board and local communities.

Planning for a reliable and sustainable electricity system

In our ongoing efforts to maintain long-term integrated power system plans, we worked proactively to understand trends for electricity demand, the impacts of conservation and the options for supplying and locating generation. Our work also continued on integrating renewable generation, preparing for nuclear refurbishment, and ensuring the operability of the system. We maintained updated assessments of electricity supply to assess Ontario's long-term reliability needs, identify options to address the needs and propose related actions.

Maintaining updated forecasts of demand

In 2012, the forecast of electricity demand was updated to reflect changing economic conditions and to incorporate updated assumptions on prices and energy efficiency. It was also developed at the regional level to assist in regional planning.

Advancing transmission projects to maintain reliability and meet renewable energy targets

Together, Hydro One and the OPA furthered transmission projects in the Greater Toronto Area and the west of London area in order to maintain reliability and meet Ontario's renewable energy targets. We also continued to support the East-West Tie transmission project between Thunder Bay and Wawa.

Innovative planning approaches for supplying future regional growth

The OPA continued to work on a number of integrated regional plans in areas facing supply constraints in 2012. Regional planning processes were ongoing in Central-Downtown Toronto, York Region, Kitchener-Waterloo-Cambridge-Guelph, Ottawa, Windsor-Essex and northwestern Ontario. We also began to work proactively with provincial, regional and municipal authorities to coordinate future transmission requirements with other linear infrastructure plans in accordance with the government's policies on land use planning in its Provincial Policy Statement.

Planning for the north

The Northwest is a region with significant potential demand growth from mining development. There is strong commitment to ensure reliability is maintained and we continue to develop and consult with stakeholders on updated plans.

We continued to collaborate with the Northwest Ontario First Nation Transmission Planning Committee to examine the technical and economic viability of connecting 25 remote First Nation communities in Northwestern Ontario that are powered by diesel generation. A final technical report, expected in mid-2013, will assist future proponents in advancing remote community connections beyond the Pickle Lake and Red Lake areas. It will inform Aboriginal communities and other interested parties of the business case for connecting remote communities.

Supporting a wide range of sector initiatives

We continued to support a wide range of sector initiatives, including assessments for decision makers, the FIT Program for renewable energy procurement, and support of nuclear refurbishment. This work was done in collaboration with our partners, including the Independent Electricity System Operator, Ontario Power Generation and local distribution companies.

In 2012, we continued to develop a sustainability integration framework to help strengthen and expand consideration of sustainability in our planning activities.

Transforming to a cleaner, more reliable system

The OPA continued to procure renewable and clean energy through our standard offer programs and bilateral negotiations throughout 2012. These procurements ensure that Ontario's needs for clean, reliable electricity supply are met, now and in the future.

Managing contracts for clean energy

The OPA was managing about 22,500 megawatts of electricity supply under contract at the end of 2012. This is all clean energy:

- 8,161 megawatts of renewable wind, solar and bioenergy
- 2,382 megawatts of renewable hydroelectric

- 8,868 megawatts of natural gas, combined heat and power and energy from waste
- 3,000 megawatts of nuclear capacity under contract.

We continued to improve our contract management and settlement processes to handle higher volumes more efficiently and to continue to provide value to Ontario ratepayers. By the end of 2012, we were managing close to 16,800 contracts.

We also finalized contract negotiations with TransCanada Energy and Eastern Power to relocate their contracted facilities to Napanee and Sarnia, respectively.

Procuring and delivering renewable and clean energy

Much of the significant amount of wind, solar and bio-energy under contract to the OPA is a result of the FIT Program for renewable energy. Following the two-year FIT Program review, the OPA was directed in April to relaunch the program. The microFIT Program was relaunched on July 12, 2012, and the FIT program was relaunched on December 14. Through the FIT Program, we are incorporating a larger amount of intermittent resources into an existing system. With our sector partners, we have been working collaboratively on a number of initiatives to integrate these resources.

We continued to enter into new contracts with existing hydroelectric facilities under our Hydroelectric Contract Initiative. We also continued to manage procurements for other clean energy projects, such as natural gas-fired generation. And we worked to procure energy supply from other sources, including energy-from-waste projects and conversion of coal-fired facilities to biomass.

In October, Bruce Power's unit 1 and unit 2 reactors achieved commercial operation after seven years of refurbishment. Together, these units can produce enough electricity to power cities the size of Ontario's Ottawa and London combined.

In July 2012, we entered into an agreement with Ontario Power Generation for the conversion of the Atikokan Generating Station from coal to biomass to ensure continued reliable, cost-effective electricity service for homeowners, businesses and industry in the region.

We also developed the Industrial Electricity Incentive program in late 2012 to allow new and expanding industrial companies to benefit from the province's strong energy supply.

Working with communities to develop renewable energy projects

After working with the Ministry of Energy on the redesign of the Aboriginal Renewable Energy Fund and the Community Energy Partnerships Program, we launched the revised fund and program in mid-December. We also worked with the Ministry of Energy to examine options to revise the Aboriginal Community Energy Plan program, expected to relaunch in 2013.

Achieving innovative solutions together

Our collaboration with Ontario's First Nations and Métis communities and our continuing stakeholder engagement enables us to achieve innovative approaches and solutions in our programs, processes and operations.

Supporting Aboriginal participation

We continued to encourage Aboriginal participation and investment in Ontario's electricity system by engaging First Nations and Métis in energy conservation and planning, transmission initiatives and electricity procurement. Our efforts remained focused on building capacity in Aboriginal communities for participating in these activities, and included supporting a training initiative with the Ontario Waterpower Association for First Nations working on hydroelectric development in Ontario.

In addition, we concluded a Capacity and Relationship Building Funding Agreement with Grand Council Treaty 3, an organization representing 24 First Nation communities in northwestern Ontario. The agreement fostered a discussion about numerous opportunities including renewable energy supply and conservation. Three sessions were well attended by Chiefs, Elders and youth and provided energy-related information from various experts across the sector.

We also continued our support of and work with the Northwest Ontario First Nation Transmission Planning Committee on the development of a regulatory business case for the connection of remote First Nation communities.

Ongoing stakeholder engagement and social and environmental responsibility

We continued to strengthen community and stakeholder relations, particularly for local and regional supply planning, procurements (including the FIT and microFIT programs), and conservation initiatives with local distribution companies – through outreach engagement and communications activities.

Our social and environmental responsibility remained a top priority and our efforts are earning significant public recognition. Our employees support a wide range of charities. We met our 2012 environmental targets for electricity, paper and waste reduction, and increased staff engagement, awareness and support for ongoing environmental initiatives. The OPA received a Greater Toronto Top Employer award for the third year in a row and won Pollution Probe's Clean Air Commute for our size category for the second straight year. We were also selected as WWF-Canada's 2012 Green Team of the Year.

Management Discussion and Analysis

2012 Financial Highlights

- The OPA reduced total operating expenses by $2.9 million or 4.7 percent from 2011.
- Focused resources on finding organizational efficiencies while delivering on an increasingly broad and complex mandate in 2012, including proposed merger and integration activities.
- Managed significant increase in program-related activities including:
  - increased participation in the Industrial Accelerator program, renewable energy integration; launched Industrial Electricity Incentive Program; relaunched the Community Energy Partnerships Program and the Aboriginal Renewable Energy Fund.
- Managed and settled an increasing volume of contracts accounting for two-thirds of the total electricity system.
- Full-time equivalent staffing levels remained unchanged as temporary staff to support the FIT program offset ongoing vacancies in other areas.

The following is a discussion of the operating results of the Ontario Power Authority (OPA) for the year ended December 31, 2012. Futher details can be found in the detailed financial statements and notes.

- The OPA incurs expenses to achieve its mandate. These expenses include wages, professional expenses, leases and other general operating expenses that are needed to manage and support long-term system planning, electricity generation and provincial conservation programs.

- The OPA incurs charges related to conservation programs to meet Ontario's conservation targets for electricity savings, as well as charges related to generation contracts to provide an adequate, reliable and sustainable electricity supply to the province. These charges are reflected in the global adjustment mechanism (GAM) and are discussed later in this report.

Financial performance

Revenue

Changes in FIT Program drive registration fees revenue reduction.

The OPA has three different sources of revenue that are used to fund its expenses:

a) **Fees:** an Ontario Energy Board (OEB)-approved rate charged to Ontario electricity consumers on a consumption basis, with total fees revenue targeted to recover the OPA's operating budget. With the OEB's approval, the OPA continued to collect an interim usage rate of $0.551/MWh, set in 2011. In 2012, total revenue remained unchanged at $76.3 million from 2011.

b) **Registration fees:** an administrative charge on OPA procurements. 2012 registration fees are $1.8 million lower than in 2011, primarily due to reimbursement of registration fees for Feed-in-Tariff (FIT) applications.

c) **Other revenue:** interest and miscellaneous income.

Table 1: 2012 and 2011 Revenue

OPA Revenue (in millions)	2012	2011	Change
Fee revenue	$76.3	$76.3	$0.0
Registration fees	-$1.5	$0.3	-$1.8
Other	$0.8	$1.7	-$0.9
Total	$75.6	$78.3	-$2.7

Operating Costs

Continued to lower costs through flexibility in staffing, reduced reliance on external services and achievement of ongoing efficiencies.

Expense items are captured in the following categories: compensation and benefits, professional fees, Conservation and Technology Fund disbursements, general operating costs, as well as amortization of capital assets. In 2012, total operating expenses of $59.3 million (before amortization of other financial accounts) declined by $2.9 million or 4.7 percent from 2011.

- **Compensation and Benefits:** total expenses of $32.0 million were $0.4 million higher than in 2011. Higher compensation expenses were primarily due to additional temporary resources to support the FIT and microFIT programs, partially offset by ongoing vacancies.

- **Professional Fees:** total 2012 expenses of $10.9 million declined by $4.0 million or 27.2 percent from 2011. This decrease was due to savings related to the suspension of the second Integrated Power System Plan, reduced outsourced IT project support, timing of research spending and reduced costs for various electricity procurement projects.

- **General Operating Costs:** total expenses of $11.3 million were $0.7 million higher than 2011 expenses. In 2012, additional expenses were incurred to support the OPA's conservation program management system. These higher expenses were partially offset by lower travel and marketing expenses.

- **Other Costs:** other costs totaling $5.2 million in 2012 were $0.1 million higher than 2011. Higher amortization expenses were offset by lower Conservation Fund expenses. As Conservation Fund expenses have been treated as charges for projects approved since 2011, there will be a continuous decline in fund expenses in future years.

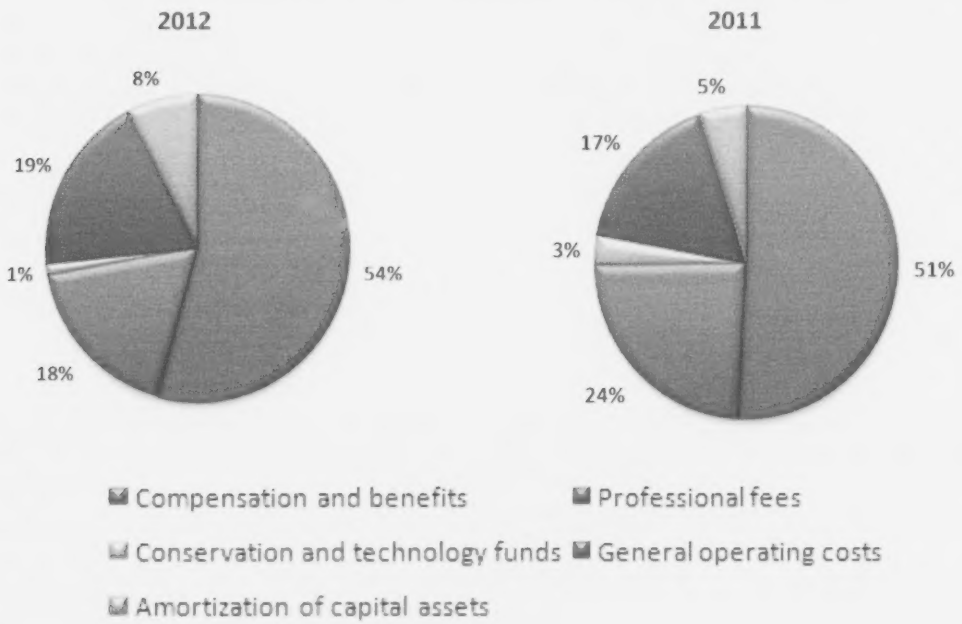
- **Amortization of Capital Assets:** amortization costs of $4.4 million in 2012 were $1.2 million higher than 2011. A 2012 review of OPA's assets resulted in some reclassifications, as well as revisions of useful life of assets.

Amortization of Other Financial Accounts: no expense was incurred in 2012 as accounts were fully amortized in 2011. Other financial accounts relate to Retailer Contract Settlements – payments made by the OPA to retailers with respect to certain consumer contracts entered into before prices for electricity were fixed (Regulated Price Plan enactment in 2002). These payments allowed retailers to settle any differences between the Hourly Ontario Electricity Prices (HOEP) and the contract price. Once the contracts with consumers expired, the balances accumulated in deferral accounts and were amortized over three years.

Table 2: 2012 and 2011 Operating Costs

OPA Operating Costs (in millions)	2012	2011	Change
Compensation and benefits	$32.0	$31.6	$0.4
Professional and consulting	10.9	14.9	-4.0
Conservation and technology funds	0.7	1.9	-1.2
General operating costs	11.3	10.6	0.7
Amortization of capital assets	4.4	3.2	1.2
Sub-total Operating Expenses	**$59.3**	**$62.2**	**-$2.9**
Amortization of other financial accounts	0.0	14.2	-14.2
Total Operating Costs	**$59.3**	**$76.4**	**-$17.1**

Figure 1: 2012 and 2011 Operating Expenses by Expense Category

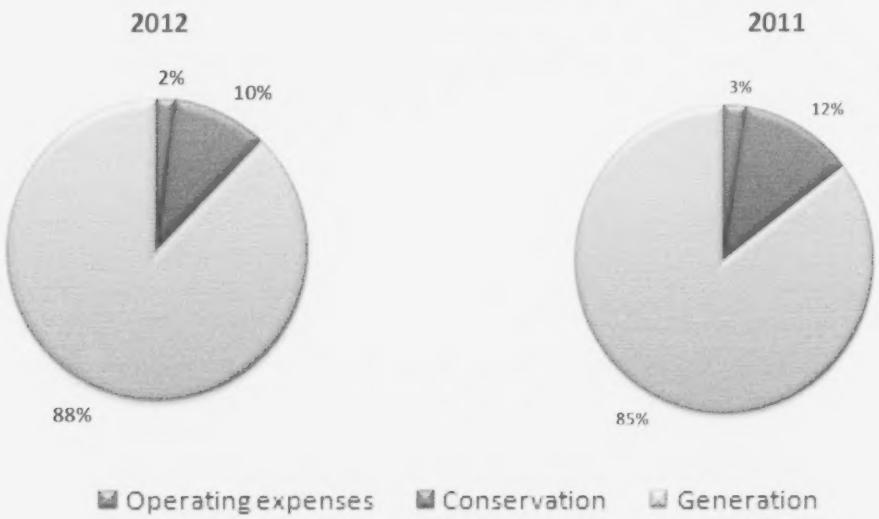


Program Spending

Program spending, also known as "charges", consists of payments to suppliers and participants in the OPA's conservation and generation initiatives, and is reflected in GAM.

In the face of a continuing increase in program activities and corresponding program spending, the OPA was able to decrease its operating costs for the year from three percent to two percent of total program spending. Generation program spending is higher in 2012 due to an increase in the number of contracts achieving commercial operation. Conservation-related program spending provided financial assistance toward meeting or exceeding the provincial conservation targets.

Figure 2: 2012 and 2011 Operating Expenses, Conservation Program Costs and Generation Charges



Electricity supply contracts include nuclear, clean and renewable generation facilities. Generation charges account for changes in the mix of fuel sources and total installed capacity under contract in operation and for differences between HOEP and the rates paid to contracted generators for electricity in Ontario. These "top up" contract payments increased in 2012 as the value of HOEP continued to decrease. In 2012, total electricity generation charges increased 18 percent over 2011. The lower HOEP and new renewable generation contracts contributed to the majority of the increase in generation charges.

Table 3: 2012 and 2011 Operating Expenses and Program Costs

OPA Expenses (in millions)	2012 Actual	2011 Actual	Change in 2012 from 2011
Operating expenses	$59.3	$62.2	-$2.9
Conservation programs	$301.1	$317.8	-$16.7
Generation programs	$2,608.3	$2,210.4	$397.9

The OPA will continue to develop, implement and manage a robust portfolio of conservation programs while integrating its evaluation, measurement and verification system to track overall progress in meeting Ontario's conservation targets.

Global Adjustment Mechanism (GAM)

GAM accounts for differences between HOEP and the rates paid to regulated and contracted generators for electricity in Ontario. It also includes amounts paid for conservation and demand management programs, as well as green energy initiatives. As a result, elements of GAM may be positive or negative, depending on the fluctuation of prices in the wholesale electricity market. GAM applies to all consumers in Ontario, including business customers who pay the dispatch market price (HOEP) and customers who have signed a contract with a licensed electricity retailer. For customers who subscribe to the Regulated Price Plan (RPP), it is factored into the rate set by the OEB.

The global adjustment reflects the difference between the dispatch market price and:

- regulated rates paid to Ontario Power Generation's (OPG's) nuclear and hydroelectric baseload generating stations
- payments made to suppliers that have been awarded contracts through the OPA, such as new gas-fired facilities, renewable facilities (e.g., FIT and microFIT program projects) and demand response programs
- contracted rates administered by the Ontario Electricity Financial Corporation (OEFC) paid to existing generators.

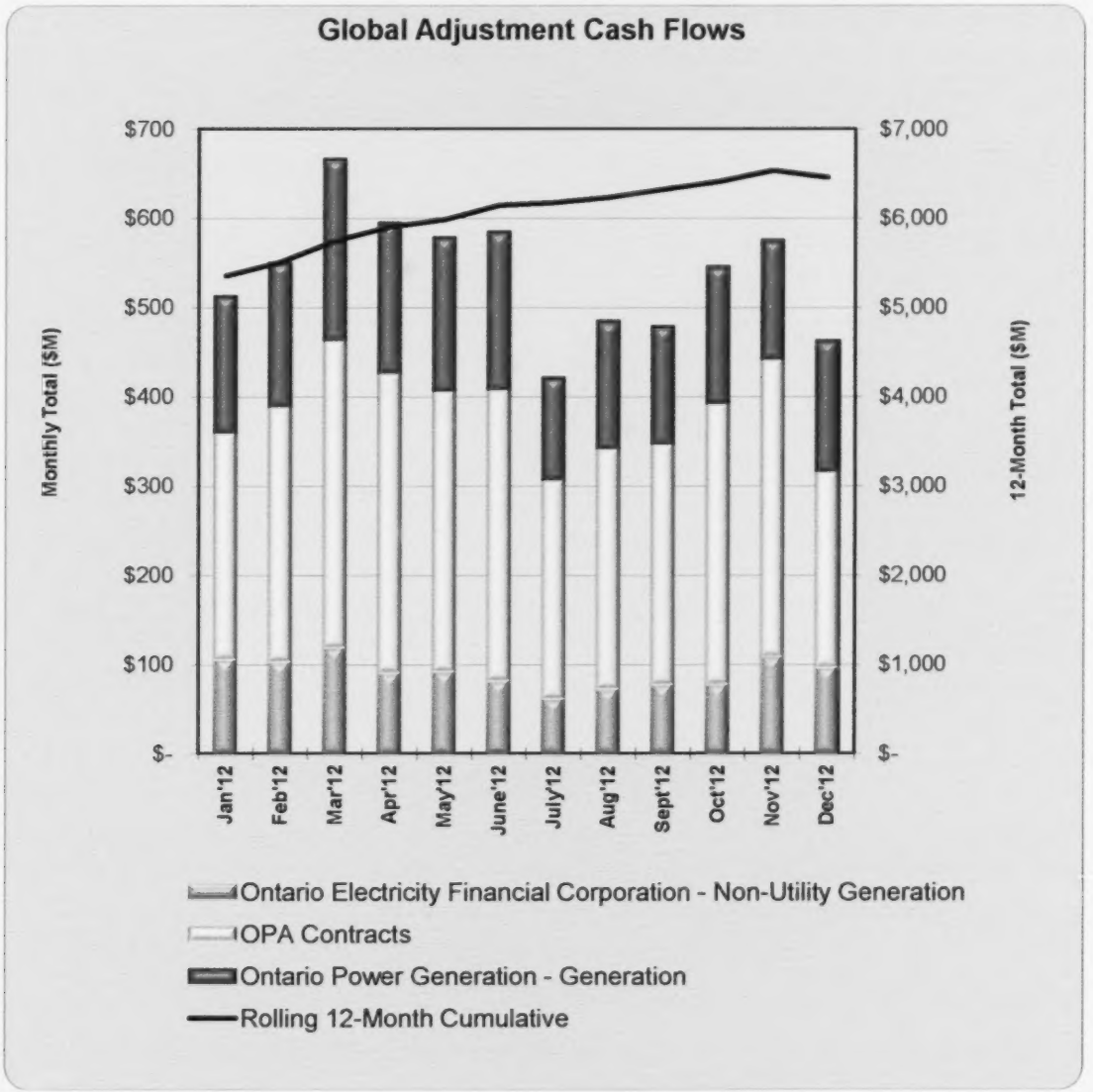
Accounting for the Global Adjustment Mechanism

The OPA has a legislated responsibility to record transactions that flow through GAM. To meet this requirement, the OPA records the cash flows related to procurement contracts held, managed or under its responsibility. The account is settled monthly; however, the settlement process for OPA contracts requires an estimate of the balance owing to suppliers at each month end. This estimate is filed with the IESO at the end of each month and received by the OPA in the following month to settle electricity payments to contractors. Any variances between the actual

amounts paid and estimated amounts payable are included in the following month's settlement. At December 31, 2012, a balance of $474 million existed in relation to amounts receivable from the market through the IESO to fund electricity payments.

Figure 3 highlights OPA cash flows from GAM for the 12-month period ending December 31, 2012. The rolling 12-month trend line reflects the average monthly global adjustment cash flows for the previous 12-month period. This is compared to the global adjustment cash flows for each month. The global adjustment increases and decreases in response to changes in HOEP. When HOEP is lower, the global adjustment is higher to cover the additional payments for energy contracts and other regulated generation. GAM also increases as new projects come into service and contract payments take effect.

Figure 3: OPA Cash Flows from the Global Adjustment Mechanism



Executive Compensation Plan

Program Objectives

The OPA executive compensation program is an integrated program for all executive staff. It is designed to attract, retain and motivate the calibre of executives required to support the achievement of the OPA's statutory mandate, corporate vision and business objectives. Accordingly, the compensation philosophy and program have the following objectives:

- to focus executives on meeting the OPA's business objectives
- to attract qualified and talented executive staff needed to carry out the OPA's mandate
- to retain valued executive staff
- to provide flexibility to differentiate total compensation for specific executives based on individual results and demonstrated competencies
- to establish compensation levels that are responsible and defensible to stakeholders.

The philosophy underlying these objectives is that the total compensation for executive management should be sufficient, but not more than required, to attract the skills and competencies needed to carry out the OPA's mandate.

For the sixth consecutive year, the OPA's Board of Directors approved a freeze on the subsequent year's salary structure for executives. In freezing the executives' salary structure for 2013, the Board took into consideration social, economic, legal and political factors, such as prevailing financial and employment conditions, government fiscal considerations, including compliance with the 2012 amendments to the *Broader Public Sector Accountability Act, 2010*.

Table 1 sets out the annual compensation for the year ended December 31, 2012, for the listed executive officers. The total cash compensation information provided below matches the information published under the *Public Sector Salary Disclosure Act (Ontario)* for the indicated period.

Table 4: Summary of Executive Compensation[1]

Name, Position Title	Year	Salary Paid	Taxable Benefits[3]	Amounts Reportable Under *Public Sector Salary Disclosure Act*[2]
Colin Andersen, Chief Executive Officer	2011	$573,027	$871	$573,898
	2012	$573,027	$900	$573,927
Kimberly Marshall, Vice-President, Business Strategies and Solutions (Chief Financial Officer)	2011	$254,952	$799	$255,751
	2012	$255,172	$819	$255,991
Amir Shalaby, Vice-President, Power System Planning	2011	$449,939	$878	$450,817
	2012	$449,541	$900	$450,441
Andrew Pride Vice-President, Conservation	2011	$316,970	$886	$317,856
	2012	$316,970	$900	$317,870
JoAnne Butler, Vice-President, Electricity Resources	2011	$371,924	$878	$372,802
	2012	$371,924	$900	$372,824

[1] Executives are listed in the following order:
Chief executive officer, chief financial officer, then in alphabetical order by first name.

[2] Total T4 income, including taxable benefits.

[3] Increase in 2012 taxable benefits related to rate changes in OPA-funded basic life insurance premiums affecting all staff.

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ontario Power Authority

We have audited the accompanying financial statements of Ontario Power Authority, which comprise the statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG Network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Power Authority as at December 31, 2012, December 31, 2011 and January 1, 2011, and its results of operations, its changes in net assets and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

February 20, 2013
Toronto, Canada

Audited financial statements of

ONTARIO POWER AUTHORITY

For the year ended December 31, 2012

ONTARIO POWER AUTHORITY

Statement of Financial Position
(in thousands of dollars)

December 31, 2012, December 31, 2011 and January 1, 2011

Assets	December 31, 2012	December 31, 2011	January 1, 2011
Current assets:			
Cash and cash equivalents	$ 315,631	$ 229,827	$ 97,263
Accounts receivable (note 3)	$ 546,963	$ 416,102	289,123
Prepaid expenses	$ 564	$ 300	86
	$ 863,158	**$ 646,229**	**386,472**
Capital assets (note 4)	$ 6,628	$ 10,378	11,236
Other financial assets (note 5)	$ -	$ -	15,689
Total Assets	**$ 869,786**	**$ 656,607**	**$ 413,397**
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities (note 6)	$ 474,839	$ 321,995	$ 296,254
Operating loan (note 13)	$ 60,000	$ 256,368	-
Contract deposits (note 7)	$ 28,996	$ 52,128	67,571
Other liabilities	$ 105	$ 83	68
	$ 563,940	**$ 630,574**	**363,893**
Deferred rent inducement, net (note 8)	$ 403	$ 547	691
Other financial liabilities (note 5)	$ 289,918	$ 25,788	49,966
Net assets:			
Internally Restricted Conservation and Technology Funds (note 9)	$ 9,939	$ 10,667	12,581
Invested in capital assets	$ 6,628	$ 10,378	11,236
Accumulated operating deficit	$ (1,042)	$ (21,347)	(24,970)
	$ 15,525	**$ (302)**	**(1,153)**
Commitments (note 8)			
Contingencies and guarantees (note 14)			
Total Liabilities and Net Assets	**$ 869,786**	**$ 656,607**	**$ 413,397**

See accompanying notes to financial statements

ONTARIO POWER AUTHORITY

Statement of Operations
(in thousands of dollars)

Years ended December 31, 2012 and 2011

		2012		2011
Revenue:				
Fees	$	76,298	$	62,121
Recovery of other financial accounts (note 5)	$	-	$	14,267
Registration fees (note 7)	$	(1,456)	$	254
Interest income	$	666	$	1,657
Other income	$	102	$	17
	$	**75,610**	**$**	**78,316**
Expenses:				
Compensation and benefits	$	32,034	$	31,610
Professional fees	$	10,852	$	14,903
Amortization of other financial accounts (note 5)	$	-	$	14,267
General operating costs (note 10)	$	11,272	$	10,595
Conservation and Technology Funds expenses (note 9)	$	728	$	1,914
Amortization of capital assets	$	4,427	$	3,155
	$	**59,313**	**$**	**76,444**
Excess of revenue over expenses before interest expense	$	16,297	$	1,872
Interest expense	$	470	$	1,021
Excess of revenue over expenses	**$**	**15,827**	**$**	**851**

See accompanying notes to financial statements

ONTARIO POWER AUTHORITY

Statement of Changes in Net Assets
(in thousands of dollars)

Years ended December 31, 2012 and 2011

December 31, 2012	Invested in Capital Assets	Internally Restricted (see note 9)	Accumulated Operating Deficit	Total Net Assets
Balance, beginning of the year	$ 10,378	$ 10,667	$ (21,347)	$ (302)
Excess of revenue over expenses	$ (4,427)	$ -	$ 20,254	$ 15,827
Conservation and Technology Funds expenses	$ -	$ (728)	$ 728	$ -
Purchase of capital assets (net)	$ 677	$ -	$ (677)	$ -
Balance, end of the period	**$ 6,628**	**$ 9,939**	**$ (1,042)**	**$ 15,525**

December 31, 2011	Invested in Capital Assets	Internally Restricted (see note 9)	Accumulated Operating Deficit	Total Net Assets
Balance, beginning of the year	$ 11,236	$ 12,581	$ (24,970)	$ (1,153)
Excess of revenue over expenses	$ (3,155)	$ -	$ 4,006	$ 851
Conservation and Technology Funds expenses	$ -	$ (1,914)	$ 1,914	$ -
Purchase of capital assets (net)	$ 2,297	$ -	$ (2,297)	$ -
Balance, end of the period	**$ 10,378**	**$ 10,667**	**$ (21,347)**	**$ (302)**

See accompanying notes to financial statements

ONTARIO POWER AUTHORITY

Statement of Cash Flows
(in thousands of dollars)

Years ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Excess of revenue over expenses	$ 15,827	$ 851
Items not involving cash:		
Amortization of capital assets	$ 4,427	$ 3,155
Amortization of deferred rent inducement	$ (144)	$ (144)
Amortization of other financial accounts	$ -	$ 14,267
Change in non-cash operating items (note 12)	$ (1,413)	$ (116,895)
	$ 18,697	$ (98,766)
Cash Flows from Financing Activities:		
Increase in other liabilities	$ 22	$ 15
Increase (decrease) in operating loan	$ (196,368)	$ 256,368
Increase in other financial assets	$ -	$ 1,422
Increase/(decrease) in other financial liabilities	$ 264,130	$ (24,178)
	$ 67,784	$ 233,627
Cash Flows from Capital Activities:		
Purchase of capital assets	$ (677)	$ (2,297)
	$ (677)	$ (2,297)
Increase in cash and cash equivalents	$ 85,804	$ 132,564
Cash and cash equivalents, beginning of year	$ 229,827	$ 97,263
Cash and cash equivalents, end of year	**$ 315,631**	**$ 229,827**

See accompanying notes to financial statements

ONTARIO POWER AUTHORITY

Notes to Financial Statements
(in thousands of dollars)

Years ended December 31, 2012 and 2011

1) Nature of operations:

The *Electricity Restructuring Act, 2004* (the Act), established the Ontario Power Authority (OPA) as a non-share corporation on December 20, 2004. The OPA is an independent non-profit, non-taxable corporation. The OPA is not a Crown agent and recovers its costs through fees approved by the Ontario Energy Board (OEB) and through charges to the electricity market through the global adjustment mechanism. In accordance with the Act, the OPA's main objectives are:

- to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term;
- to conduct independent planning for electricity generation, demand management, conservation and transmission, and develop integrated power system plans for Ontario;
- to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario;
- to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources;
- to establish system-wide goals for electricity to be produced from alternative energy sources and renewable energy sources;
- to engage in activities that promote electricity conservation and the efficient use of electricity;
- to assist the OEB by facilitating stability in rates for certain types of customers; and
- to collect and provide to the public and the OEB information relating to medium and long-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs.

The OPA's ability to continue as a going concern is dependent upon its ability to obtain financing to support operations. The OPA's creditworthiness is attested by the following:

- the ability of the OPA to meet its obligations is provided for in legislation;
- the OPA's minimal counterparty risk, given that its principal counterparty is the Independent Electricity System Operator (IESO), a creation of the province and a strong counterparty.

On January 1, 2011, the OPA adopted Canadian public sector accounting standards, ("PSAS"). The OPA has also elected to apply the 4200 standards for government not-for-profit organizations. These are the first financial statements prepared in accordance with PSAS.

In accordance with the transitional provisions in Canadian PSAS, the OPA has adopted changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is January 1, 2011 and all comparative information provided has been presented by applying Canadian PSAS.

There are no adjustments to net assets as at January 1, 2011 or excess of revenue over expenses for the year ended December 31, 2011 as a result of the transition to Canadian PSAS.

During 2012 the Province of Ontario announced a plan to merge the OPA and the IESO. In October 2012, the Premier prorogued parliament thereby terminating the legislation to enact the merger. The likelihood of such a merger is indeterminable at this time.

2) Significant accounting policies:

(a) Basis of presentation:

The financial statements have been prepared in accordance with Canadian PSAS including the 4200 standards for government not-for-profit organizations.

(b) Revenue recognition:

Amounts received in the current year that relate to services and programs to be determined in subsequent years are not recognized as revenue and are deferred.

Fees earned by the OPA are based upon OEB-approved rates for electricity withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the year in which it is earned.

(c) Cash and cash equivalents:

Cash and cash equivalents are comprised of bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 90 days.

(d) Capital assets:

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated service lives, as follows:

Assets	Estimated Average Service life
Furniture and equipment	10 years
Computer hardware	4 years
Computer software	3 to 5 years
Audio-visual equipment	10 years
Telephone system	5 years
Leasehold improvements	Term of lease

2) Significant accounting policies (continued):

(e) Employee pension benefits:

The OPA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the OPA does not have sufficient information to apply defined benefit plan accounting to this pension plan.

The OPA is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Ontario Pension Board.

(f) Measurement uncertainty:

Uncertainty in determining the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

3) Accounts receivable:

	December 31, 2012	December 31, 2011	January 1, 2011
Market contracts			
Generation contracts	$ 474,424	$ 326,049	$ 187,789
Conservation contracts	54,382	87,077	98,059
Renewable energy contracts	12,555	2,156	1,126
	541,361	415,282	286,974
Other	262	820	1,232
HST/GST Receivable	5,340	-	917
	$ 546,963	**$ 416,102**	**$ 289,123**

4) Capital assets:

December 31, 2012	Cost	Accumulated amortization	Net book value
Furniture and equipment	$ 3,372	$ 1,870	$ 1,502
Computer hardware	4,830	4,606	224
Computer software	7,440	4,982	2,458
Audio-visual equipment	229	150	79
Telephone system	382	350	32
Leasehold improvements	5,133	2,800	2,333
	$ 21,386	**$ 14,758**	**$ 6,628**

December 31, 2011	Cost	Accumulated amortization	Net book value
Furniture and equipment	3,360	1,543	1,817
Computer hardware	4,697	4,076	621
Computer software	6,966	2,325	$ 4,641
Audio-visual equipment	229	127	102
Telephone system	382	284	98
Leasehold improvements	5,075	1,976	3,099
	$ 20,709	**$ 10,331**	**$ 10,378**

January 1, 2011	Cost	Accumulated amortization	Net book value
Furniture and equipment	3,277	1,218	2,059
Computer hardware	4,405	3,075	1,330
Computer software	4,623	537	4,086
Audio-visual equipment	229	104	125
Telephone system	338	195	143
Leasehold improvements	5,047	1,554	3,493
	$ 17,919	**$ 6,683**	**$ 11,236**

5) Other financial assets and liabilities:

Other financial assets, liabilities and deferrals arise as a result of the *Electricity Act, 1998* and the regulations thereunder and are reflected by the balances in the Regulated Price Plan (RPP), retailer contract settlement deferral accounts, government procurement deferral account and the global adjustment account. In the absence of rate-regulated accounting, these amounts would have flowed through the statement of operations when incurred.

	December 31, 2012	December 31, 2011	January 1, 2011
Other financial assets	$ -	$ -	$ 15,689
Other financial liabilities	(289,918)	(25,788)	(49,966)

RPP variance accounts

While prices for RPP consumers are set every six months by the OEB based upon a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecast cost of supplying electricity to all RPP consumers. When the hourly Ontario energy price (HOEP) is greater than the RPP, the OPA pays the excess amount and records a financial asset as the electricity market funds paid are receivable from the market. When the HOEP is less than the RPP, the OPA receives the difference and records a financial liability as the funds received will be returned to the market. The OPA tracks this variance in the RPP variance account. The Ontario Power Generation (OPG) rebate is equivalent to the difference between the revenue limit for specific OPG generating facilities and the revenue OPG actually received in the IESO wholesale spot market for that generation.

	2012	2011
OPG rebate contribution	$ (602,736)	$ (602,750)
Total RPP variance before interest	299,896	562,467
Interest earned	12,922	14,495
	$ (289,918)	$ (25,788)

5) Other financial assets and liabilities (continued):

Retailer contract settlement deferral accounts

The retailer contract discount settlement account captures the funds related to the retailer incentives existing at the creation of the RPP. The retailer incentives captured were held in a separate deferral account for settlement concurrent with the retailer settlement deferral accounts.

The contracts to which the retailer settlement accounts relate have expired. The balances in these accounts have been recovered over a three-year period from 2009 - 2011. The OPA finished amortizing the accumulated balance in 2011. The amortization expense for 2012 is $nil (2011 - $14,267).

As at December 31, 2012, the balance in the retailer contract settlement and retailer contract discount settlement accounts was nil (December 31, 2011 - nil; January 1, 2011 - $15,689). As at January 1, 2011, the balance was $15,689 which was comprised of amounts related to retailer contract settlement accounts for 2005 – 2009 - $17,014, 2010 - $359 and 2011 – NIL. There was also a retailer contract discount settlement amount as at Jan 1, 2011 amounting to $1,684.

Global adjustment account

The OPA has a legislated responsibility to record the transactions flowing through the global adjustment mechanism. The global adjustment and settlement accounts have been created for this purpose. The nature of the global adjustment transactions result in a zero balance in the account on a monthly basis. The information and explanation below provide transparency for the transactions flowing through the global adjustment mechanism.

The global adjustment and settlement accounts record charges that flow between the OPA and the IESO. The account flows include the amounts paid and received for: Demand Response 2, Demand Response 3, non-utility generation, regulated nuclear generation balancing amount and regulated hydro electric generation balancing amount. These accounts are settled simultaneously by the IESO. The account also records the amounts paid and received for OPA contracts (standard offer, generation and conservation/demand management, Feed-In Tariff and hydroelectric contract initiatives) which the OPA settles on a monthly basis with the IESO.

6) Accounts payable and accrued liabilities:

	December 31, 2012	December 31, 2011	January 1, 2011
Accrued contract settlements	$ 211,522	12,942	189,002
HST/GST payable	-	128	-
Other accrued liabilities	263,317	308,925	107,252
	474,839	**321,995**	**296,254**

7) Contract deposits:

Program Deposits:
The OPA receives performance security in the form of deposit amounts received from renewable energy supply, Feed-In Tarrif (FIT) Program and demand response suppliers. For suppliers engaged in a contract which involves the construction of a new supply facility, the deposits are larger during the construction phase and are reduced once a project commences commercial operations. Deposits related to the FIT Program are submitted to the OPA with the supplier application and can be returned if one of the following occurs: (a) the supplier withdraws their application from the Program; (b) the supplier obtains a contract with the OPA; or (c) the supplier's application is rejected by the OPA.

The deposits are classified as current liabilities as they can be replaced by a letter of credit by the supplier on request.

Program Registration Fees:
The OPA also requires a non-refundable registration fee from applicants to some renewable energy programs. Changes to FIT Program rules in 2012 affected the existing applicants to this program. As a result, the registration fees were made available for refund. Refunds were recorded as debits to the registration fee income account resulting in a negative balance.

8) Deferred rent inducement and operating lease commitments:

The OPA has entered into various long-term lease commitments for office space, which include lease inducements. Deferred rent inducement represents the benefit of operating lease inducements amortized on a straight-line basis over the term of the lease. The OPA obtained an allowance for leasehold improvements of $1,430. As at December 31, 2012, the deferred rent inducement, net of amortization, was $403 (December 31, 2011 - $547 and January 1, 2011 - $691).

The OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2012, the accrued liability was $189 (December 31, 2011 - $250 and January 1, 2011 - $321).

Lease commitments are set to terminate by October 2015. Lease commitments include amounts for leased computer hardware. Computer hardware commitments terminate between 2012-2013. The minimum annual payments under the operating lease are approximated as follows:

Lease Commitments		
2013		1,652
2014		1,650
2015		1,294
	$	4,596

9) Internally restricted conservation and technology funds:

The OPA established the Conservation Fund to support electricity conservation projects. The Technology Development Fund was established to aid the development of new technology to improve electricity supply or conservation. To date, 12 funds have been set up as depicted in the table below. These funds were set up prior to April 2010. After that, per the April 2010 Directive, all recoveries are through the Global Adjustment Mechanism.

December 31, 2012	Restricted Fund	Expensed 2012	Expensed Prior Years	Balance 2012
2005 - 2008 Conservation Fund	$ 8,600	$ 71	$ 7,938	$ 591
2009 Conservation Fund	3,000	124	2,422	454
2010 Conservation Fund	5,000	1	175	4,824
2005 - 2008 Technology Development F	3,500	89	2,827	584
2009 Technology Development Fund	1,500	162	1,253	85
2010 Technology Development Fund	4,500	281	818	3,401
	$ 26,100	$ 728	$ 15,433	$ 9,939

December 31, 2011	Restricted Fund	Expensed 2011	Expensed Prior Years	Balance 2011
2005 - 2008 Conservation Fund	$ 8,600	$ 277	$ 7,661	$ 662
2009 Conservation Fund	3,000	747	1,675	578
2010 Conservation Fund	5,000	44	131	4,825
2005 - 2008 Technology Development F	3,500	153	2,674	673
2009 Technology Development Fund	1,500	139	1,114	247
2010 Technology Development Fund	4,500	554	264	3,682
	$ 26,100	$ 1,914	$ 13,519	$ 10,667

January 1, 2011	Restricted Fund	Expensed 2010	Expensed Prior Years	Balance 2010
2005 - 2008 Conservation Fund	$ 8,600	$ 966	$ 6,695	$ 939
2009 Conservation Fund	3,000	1,242	433	1,325
2010 Conservation Fund	5,000	131	-	4,869
2005 - 2008 Technology Development F	3,500	478	2,196	826
2009 Technology Development Fund	1,500	509	605	386
2010 Technology Development Fund	4,500	264	-	4,236
	$ 26,100	$ 3,590	$ 9,929	$ 12,581

10) General operating costs:

	2012	2011
General program costs	$ 3,744	$ 4,118
Premises	3,631	3,616
Information technology	3,253	1,839
Office and administration	644	1,022
	$ 11,272	$ 10,595

11) Pension plan:

The OPA makes contributions to the Public Service Pension Plan, a multi-employer plan, on behalf of staff. The plan is a contributory defined pension plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately eight percent of earnings. As at December 31, 2012, the OPA paid or accrued contributions totalling $2,096 (December 31, 2011 - $1,937 and January 1, 2011 - $1,916) during the year.

12) Change in non-cash operating items:

	2012	2011
Increase in accounts receivable	$ (130,861)	$ (126,979)
Increase in prepaid expenses	(264)	(214)
Increase in accounts payable and accrued liabilities	152,844	25,741
Decrease in contract deposits	(23,132)	(15,443)
	$ (1,413)	$ (116,895)

13) Related party transactions:

The Province of Ontario is a related party as it is the controlling entity of the OPA. The OEB, Hydro One, the IESO, OPG, the Ontario Financing Authority (OFA) and the Ministry of Energy are related parties of the OPA, through the common control of the Province of Ontario. Transactions between these parties and the OPA were as follows:

13) Related party transactions (continued):

Under the Ontario Energy Board Act, 1998, the OPA incurs registration and licence fees. Consistent with other registrants, in 2012 the OPA was allocated a portion of the operating costs of the OEB. The total of the OPA's transactions with the OEB were $1,041 in 2012 (2011 - $1,129).

The OPA procures conservation and demand management from Hydro One. The procurement costs include payments for electricity conservation, program operating costs and management fees. In 2012, the OPA procured $34,653 in conservation demand management (2011 - $39,860), from Hydro One and its wholly owned subsidiaries. Amounts receivable from Hydro One in 2012 were $nil (December 31, 2011 - $742 and January 1, 2011 - $742).

The OPA receives its fee revenue from the IESO. The fee revenue is approved by the OEB and collected each month by the IESO from ratepayers through a usage rate applied to Ontario domestic electricity consumption. Fee revenue for 2012 was $76,298 (2011 - $76,388). In addition, the OPA and the IESO have agreements set up for the settlement of amounts paid and received for the global adjustment account, RPP on behalf of various market participants (see note 5). At December 31, 2012, the OPA had a net receivable of $264,304 (December 31, 2011 - $326,049 and January 1, 2011 - $187,789). The OPA also incurred $388 in 2012 (2011 - $844) for IESO professional services.

The OPA has available a revolving operating facility in the amount of $975,000, provided by the OFA to fund its general operating expenses and support the RPP variance account. The line of credit was renewed in 2010 for a three-year term from January 1, 2011 to December 31, 2013. On December 31, 2012 the OPA has a $60,000 (December 31, 2011 - $256,368 and January 1, 2011 - nil) outstanding balance from the OFA. In 2012, the OPA incurred $470 (2011 - $1,021) in interest expenses for the loan. This is net of interest expense that was allocated to the market.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14) Contingencies and guarantees:

Contingencies:

In the normal course of its operations, the OPA becomes involved in various legally binding agreements. Some of these agreements contain potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that a future event becomes likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability will be accrued and the expense recorded on the OPA's financial statements. As at December 31, 2012 in the opinion of management, no such liabilities exist.

Contract conditions related to the construction of a new clean energy facility stipulate that the OPA is contingently liable to repay upgrade costs, up to a maximum of $1,000, as incurred by the energy supplier. While none of these costs have been incurred to date, the OPA is liable to cover such costs over a 20-year period ending in 2025. As at December 31, 2012 management is not aware of any information to suggest that these upgrade costs will be incurred by the supplier.

Guarantees:

The OPA is contingently liable under a loan guarantee provision in a contract with a maximum potential exposure of $8,600. The outstanding loan balance under this contract which the OPA has guaranteed, is $nil as at December 31, 2012 and is not presently in default. This program ended in September 2012 and no obligations resulted from the guarantee.

The OPA enters into contracts with suppliers of electricity as part of its normal business operations. In some cases, these contracts require the OPA to support obligations with these entities. In 2012, the OPA entered into a letter of credit amounting to $1,349 in support of a contracted obligation. As at December 31, 2012, no amounts have been drawn on the balance.

15) Fair value of financial assets and financial liabilities

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The carrying values of the operating loan approximate their fair values as the terms and conditions for similar types of loan arrangements are comparable to current market conditions for similar items.

The fair values of other financial assets and other financial liabilities are not provided because it would not provide additional useful information as they would be offset and/or would not be practical to determine.

16) Capital disclosures:

Due to the OPA's primary objectives (note 1), the OPA plans for revenues to fund expenses. Any variances that occur are addressed in the following year's revenue requirement submission. As of December 31, 2012, the Minister has not provided formal approval of the OPA's business plan or the OPA's proposed usage fee for 2013.

17) Financial risk management:

The OPA is exposed to financial risks in the normal course of its business operations, including market risks resulting from credit risk, liquidity risk and interest rate risk. The nature of the financial risks and the OPA's strategy for managing these risks has not changed significantly from the prior year.

(a) Credit risk:

Credit risk refers to the risk that one party to a financial instrument may cause a financial loss for the other party by failing to meet its obligations under the terms of the financial instrument. The OPA is exposed directly to credit risk related from accounts receivable and bank deposits held at the chartered bank. Direct exposure to credit risk is limited to the carrying amount presented for these assets on the statement of financial position. Accounts receivable as of December 31, 2012 included no material items past due.

(b) Liquidity risk:

Liquidity risk refers to the risk that the OPA will encounter financial difficulty in meeting obligations associated with its financial liabilities. The OPA manages liquidity risk by forecasting cash flows to identify financing requirements. Cash flows from operations and maintaining appropriate credit facilities reduce liquidity risk.

(c) Interest rate risk:

The OPA's operating loan has a variable interest rate based on the Province of Ontario's cost of funds for borrowing, with a similar term as determined by the OFA plus a margin. As a result, the OPA is exposed to interest rate risk due to fluctuations in the Province of Ontario's cost of funds for borrowing with a similar term rate.

Corporate Information

Board of Directors

James D. Hinds, Chair
Retired from TD Securities Inc., where he was a Managing Director; Newcrest Capital Inc. and CIBC Wood Gundy Inc.

Michael Costello, Director and Chair, Audit Committee
Retired from BC Hydro and BC Transmission Corporation (President and CEO); Director, InTransit BC, Health Benefit Trust and Conifex Timber

Richard P. Fitzgerald, Director
President, Mark Anthony Brands, Toronto

Adèle M. Hurley, Director
President, Hurley & Associates Inc. and Director, Program on Water Issues, Munk School of Global Affairs, University of Toronto

Ronald L. Jamieson, Director and Chair, Human Resources Committee
Retired from BMO Financial Group, where he was Senior Vice-President, Aboriginal Banking; Director, Nuclear Waste Management Organization and Denendeh Investments Inc.; Chairman, Canadian Council for Aboriginal Business

Bruce Lourie, Director
President of Ivey Foundation, a Director of Environmental Defence Canada and a Director of the Consultative Group on Biological Diversity (San Francisco)

Lyn McLeod, Director and Vice Chair
Former Chair of the Ontario Health Quality Council and former Ontario representative on the Health Council of Canada. Founding Chancellor of the University of Ontario Institute of Technology and past Chair of the Board of Confederation College in Thunder Bay

Patrick J. Monahan, Director
Vice-President, Academic, and Provost at York University. Former Dean of Osgoode Hall Law School and former Chair of the Board of Governors of the Law Commission of Ontario.
Resigned, effective November 23, 2012

Colin Andersen, Director
Chief Executive Officer, Ontario Power Authority

Corporate Officers

James D. Hinds
Chair

Colin Andersen
Chief Executive Officer

JoAnne Butler
Vice President, Electricity Resources

Kristin Jenkins
Vice President, Corporate Communications

Michael Lyle
General Counsel and Vice President, Legal, Aboriginal and Regulatory Affairs

Kimberly Marshall
Vice President, Business Strategies and Solutions

Andrew Pride
Vice President, Conservation

Amir Shalaby
Vice President, Power System Planning

John Zych
Corporate Secretary

For more information on the Board of Directors, including the Board Charter and Code of Conduct, Governance and Structure By-Law, and Board committees, please visit the OPA website, www.powerauthority.on.ca and select About Us; Management, Mandate and Organization; Board of Directors.

Corporate Contact Information

Ontario Power Authority
120 Adelaide Street West
Suite 1600
Toronto, Ontario M5H 1T1
Phone: (416) 967-7474
Fax: (416) 967-1947
Web: www.powerauthority.on.ca